

# Iowa Department of Revenue and Finance

## FY 2004 Budget Presentation, February 11, 2003

### Our Goals

- ◆ Improved voluntary compliance
- ◆ Enhanced statewide debt collection
- ◆ Program results subject to performance measurement
- ◆ Improved tax processing/deposit operations
- ◆ Providing an environment for employee development
- ◆ Effective use of technology

### Budget Request for FY 2004

#### Total General Fund

	<u>FY2002</u>	<u>FY 2003 Revised</u>	<u>FY 2004 Gov's Recom.</u>
Status Quo Less Acctg. Bur.			\$ 22,456,922
New Compliance Pkg.			525,488
New Salary Adj. Pkg.			276,701
New REC Pkg.			741,900
Total Operating Budget	\$26,784,508	\$24,174,523	\$ 24,001,011 <sup>(1)</sup>
Statewide Prop. Tax	59,433		
Collections Costs & Fees	<u>29,700</u>	<u>28,166</u>	<u>28,166</u>
Total	\$26,873,731	\$24,202,689	\$24,029,177
FTE	448.27	390.17	391.19

**Motor Vehicle Fuel**      \$ 1,084,112    \$ 1,098,654      \$ 1,098,654

<sup>(1)</sup>Reflects Movement Of Accounting Bureau To Dept. Of Administrative Services.

### Funding Results

The FY '04 budget request supports the Department's strategic goals and reflects realignment and resource allocation to insure the following strategies are achieved:

- ◆ Improve and expand opportunities for electronic payment and filing of taxes.
- ◆ Increase availability and use of electronic self help services.
- ◆ Expand the scope of compliance and collection efforts resulting in the generation of an additional \$4.74 million in year two and thereafter.
- ◆ Make additional and timelier information available to the Revenue Estimating Conference.
- ◆ Continuing efforts to improve transactions with local tax officials utilizing electronic communication technologies.
- ◆ Provide competitive collection services to all state agencies.
- ◆ Ensure that people who owe money to the state participate in the offset program.

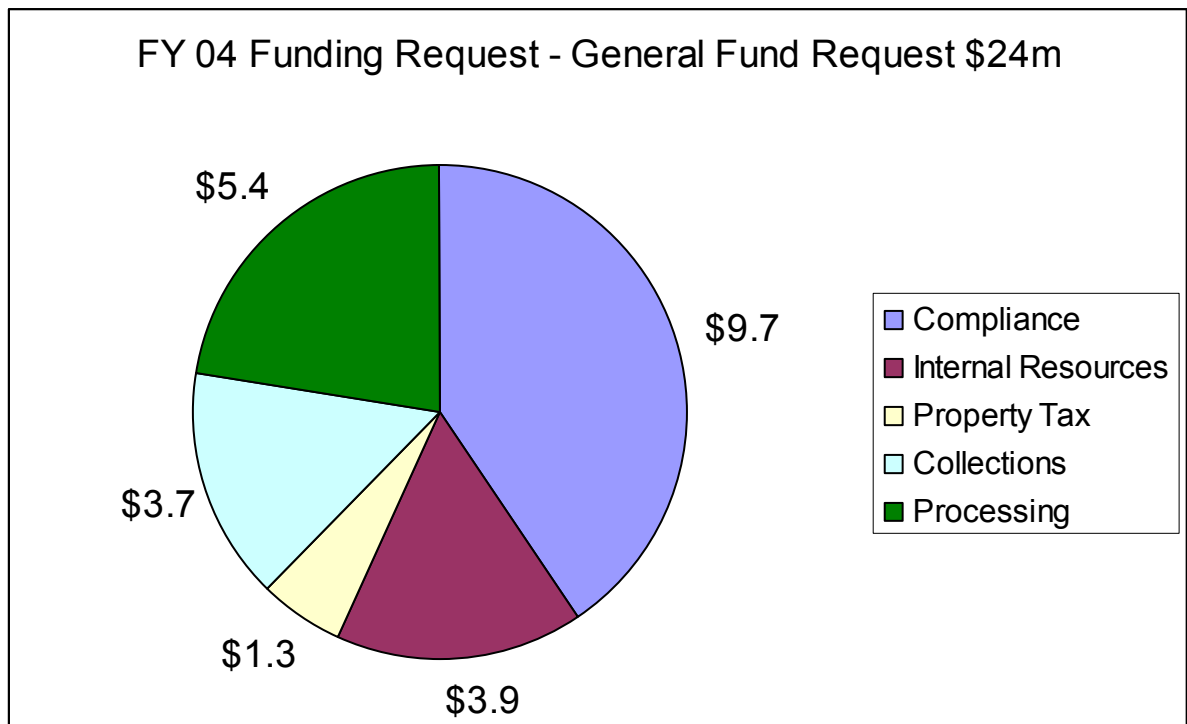
For more information about the Iowa Department of Revenue and Finance  
please visit our web site at:

[www.state.ia.us/tax](http://www.state.ia.us/tax)

# Iowa Department of Revenue and Finance

## Five Program Areas

- Compliance
- Processing
- Collections
- Internal Resource Management
- Property Tax



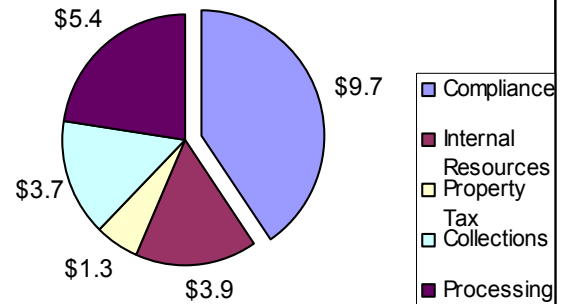
## COMPLIANCE

FY04: \$ 9.7m  
151.32 FTE's

### Program Description

To improve voluntary compliance with Iowa's tax laws so the correct amount of taxes are paid, but no more, through policy development, taxpayer education and assistance, examination, audit and the timely resolution of disputed tax issues, and to provide quality service to external and internal customers.

**FY 04 Funding Request - General Fund Request \$24m**



### Program Goals

- ◆ Provide timely, accurate and understandable information to customers.
- ◆ Discover unpaid tax liabilities and bill the correct amount of tax.
- ◆ Maintain specified turnaround times of reviewing and issuing refunds.
- ◆ Resolve protested issues at the lowest possible level of the audit and examination process.
- ◆ Participate in National, Regional and State initiatives to achieve sales tax simplification and resolve e-commerce issues

### Key Measures

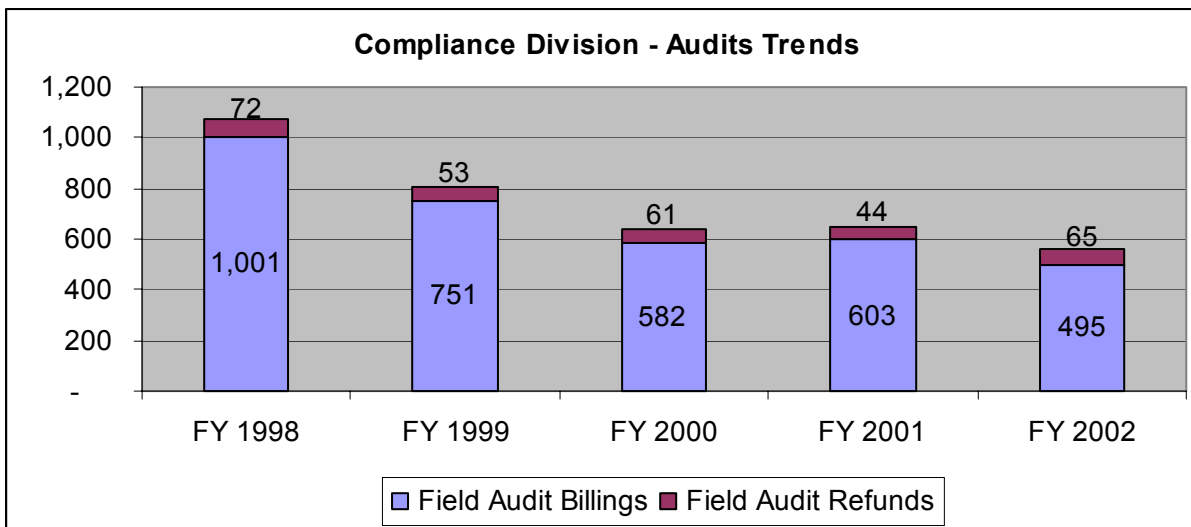
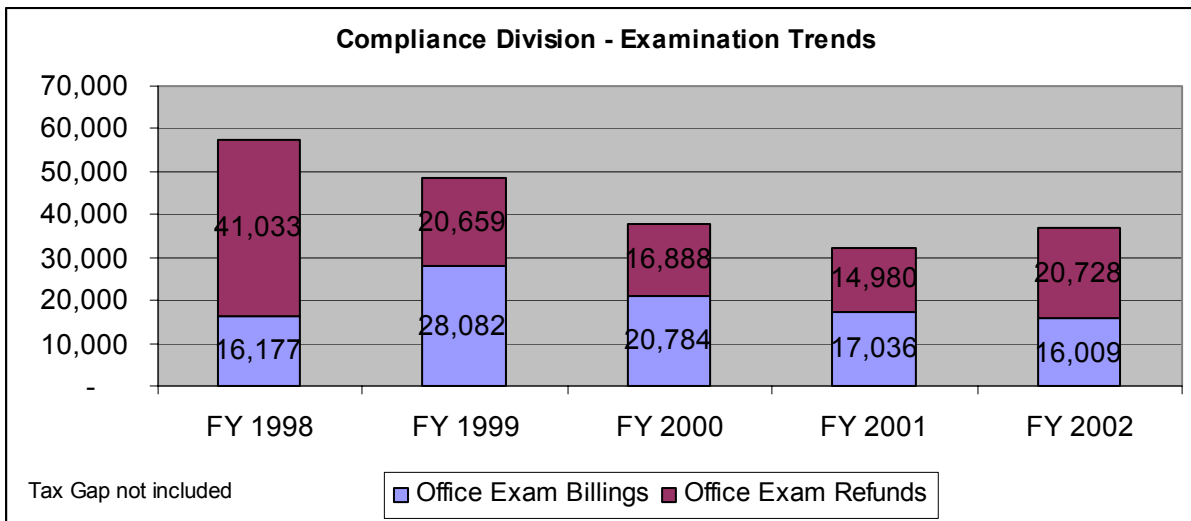
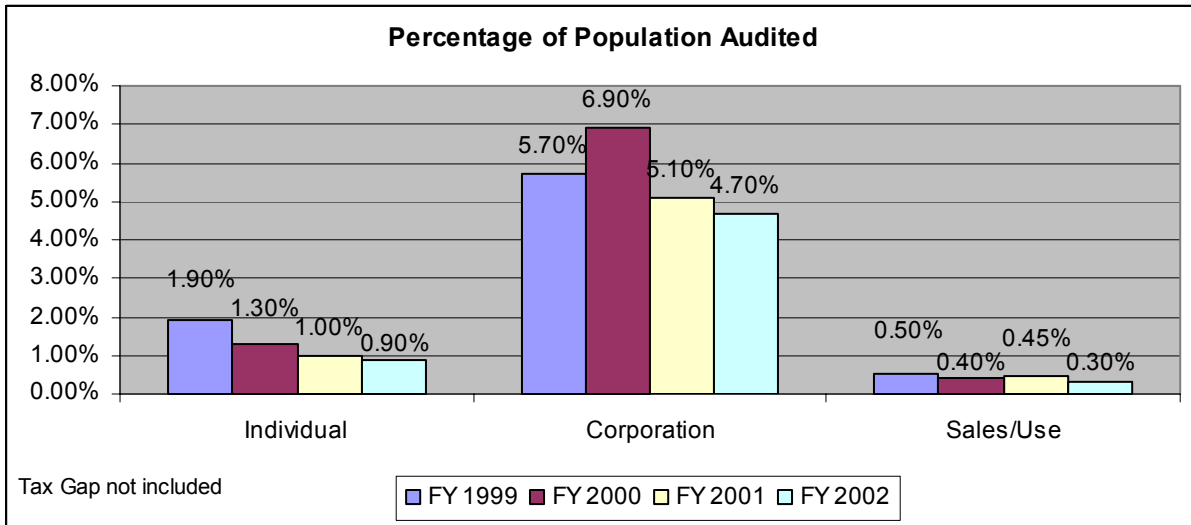
- Revenue collected per dollar of cost
- Ratio of collections to net dollars established
- Comparison of types of taxpayer contacts.
- Ratio of self-help to direct contact services.
- Busy signal rates
- Tax protest trends
- % of population audited

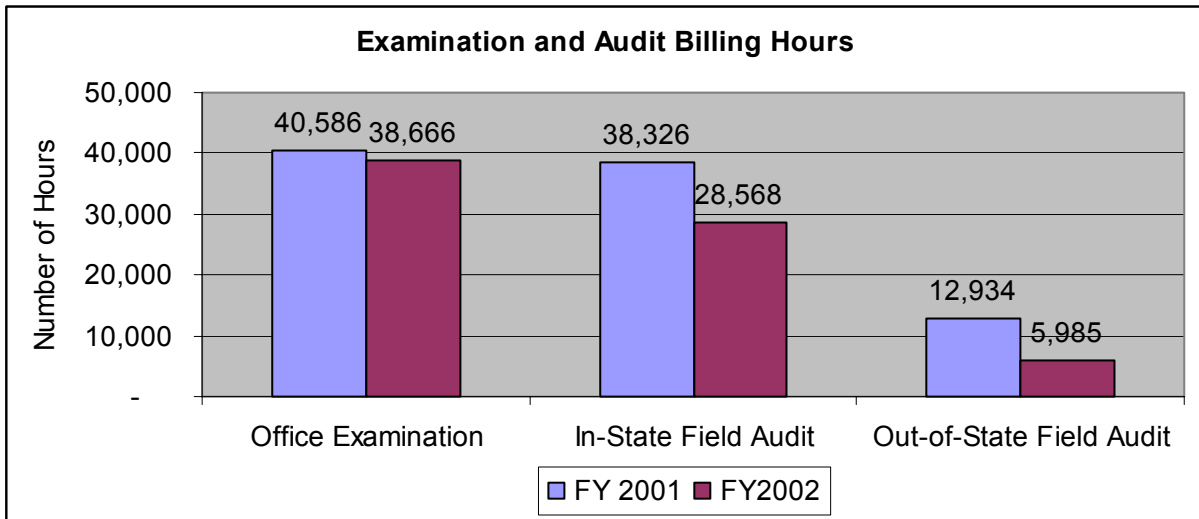
### FY 2002 Results

- ✓ 16,000 office examinations generated \$45.2 million in revenue
- ✓ 372 in-state field audits generated \$6.1 million in revenue
- ✓ 123 out-of-state audits generated \$5.7 million in revenue.
- ✓ One-third of all callers now use self-help automated options instead of asking for a tax specialist.
- ✓ 100% increase in e-mail inquiries with most receiving a response within the hour.

### FY 2004 Initiatives

- Finalize data warehouse technology initiatives and expand to other areas of the agency.
- Implement provisions of the Accountable Government Act
- Meet the education and communication needs of our customers.
- Continue to expand electronic filing.
- Increase audit and collection performance by the addition of new positions that will collect \$4.74 million two years out.
- Expand audit coverage
- Continue to expand self-help services available via the web site, phone and other methods.
- Reduce the number of taxpayer contacts requiring direct human intervention.
- Continued participation in Streamlined Sales Tax Project.
- Enforcement programs will generate \$60-\$70 million in revenues and refund reductions.

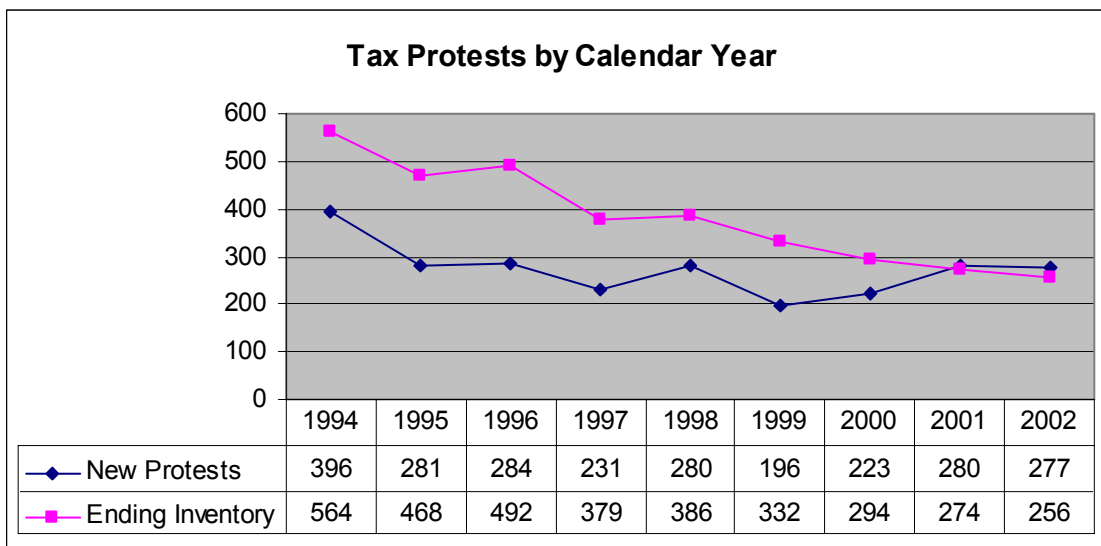




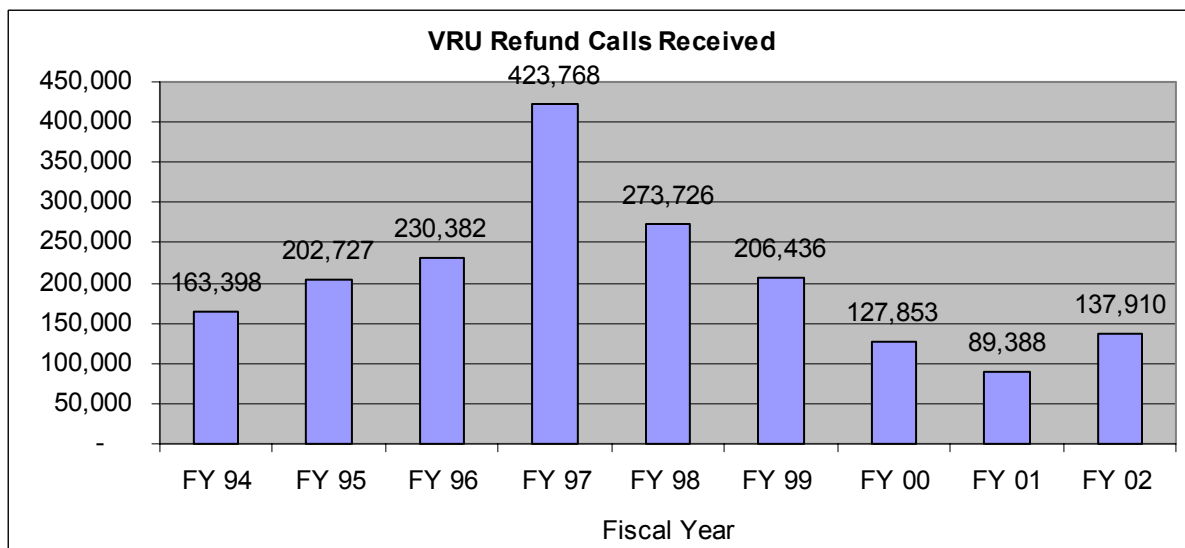
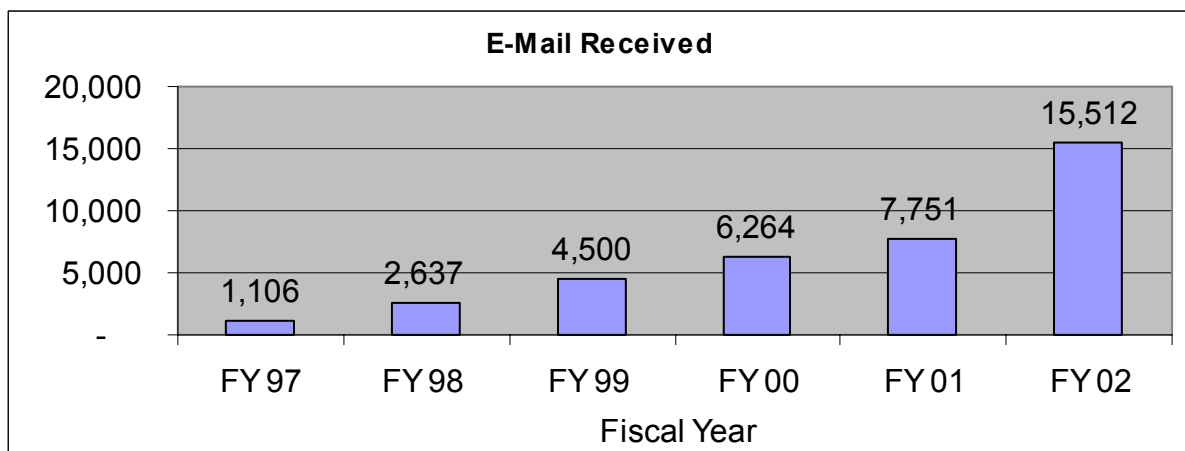
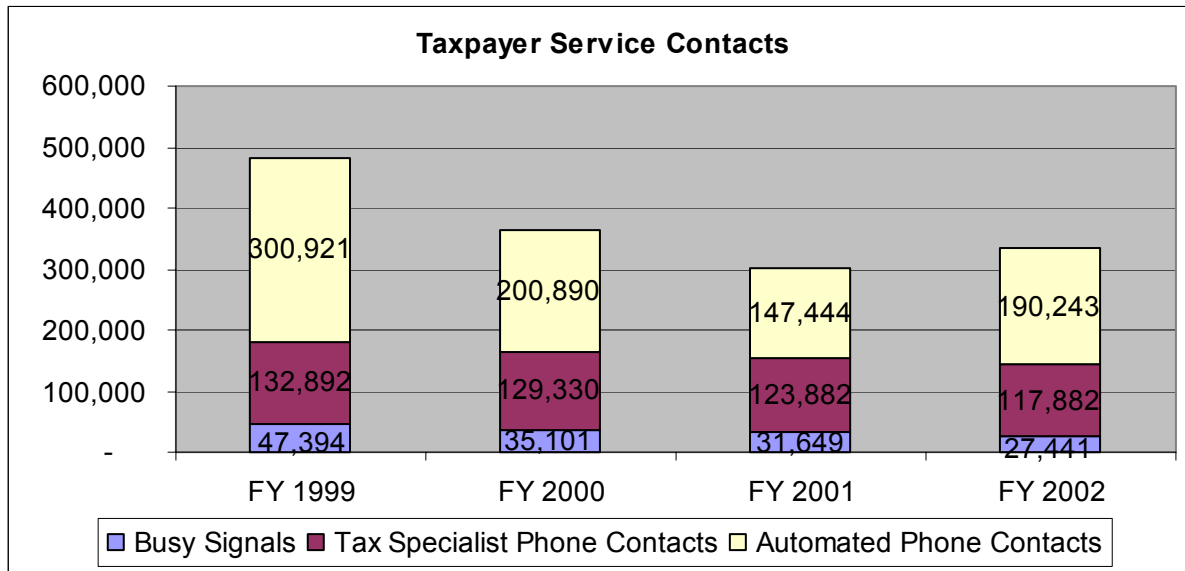
**Examination & Audit**

**REVENUE PER \$ COST**

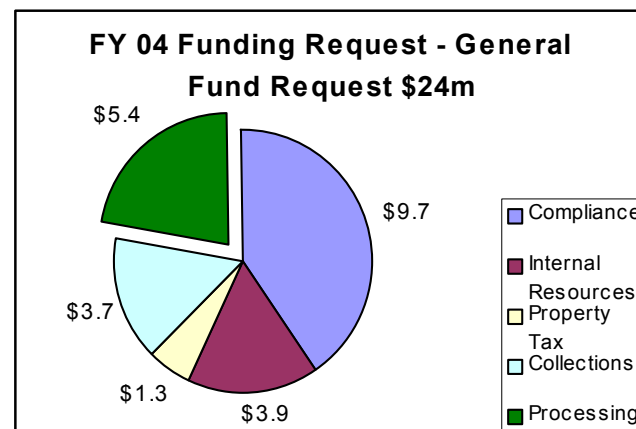
Fiscal Year	Enforcement Costs		Revenues (Collections & Refund Reductions)		Revenue Per Dollar Cost
FY 95	\$	7,913,718	\$	46,022,969	\$ 5.82
FY 96	\$	7,283,545	\$	51,483,896	\$ 7.07
FY 97	\$	8,185,714	\$	52,404,260	\$ 6.40
FY 98	\$	8,200,418	\$	63,497,679	\$ 7.74
FY 99	\$	8,467,019	\$	57,560,227	\$ 6.80
FY 00	\$	8,603,646	\$	58,792,690	\$ 6.83
FY 01	\$	9,286,965	\$	61,423,534	\$ 6.61
FY 02	\$	7,803,981	\$	76,268,906	\$ 9.77



## Taxpayer Service Contacts



PROCESSING	FY04: \$ 5.4m 102.75 FTE's
<b>Program Description</b>	
To service taxpayers of the State of Iowa by processing their tax information and payments in an accurate and timely manner so that questions or adjustments are dealt with expeditiously, and any refunds or other distribution of funds or information meets management directed or statutory time requirements.	



### Program Goals

- ◆ Accurately filed returns.
- ◆ Tax information will be opened, processed and on-line within specified time frames.
- ◆ Payment transactions will be deposited within specified time frames.
- ◆ Financial reporting will be completed within one day of deposit.
- ◆ Process and issue 90% of electronically filed income tax refunds within 14 days of the date received.
- ◆ Process and issue 90% of paper filed income tax refunds within 60 days of the date received.
- ◆ Resolve exception transactions posted to the reconciliation file within specified time frames.
- ◆ Accurately distribute funds within specified time frames.

### Key Measures

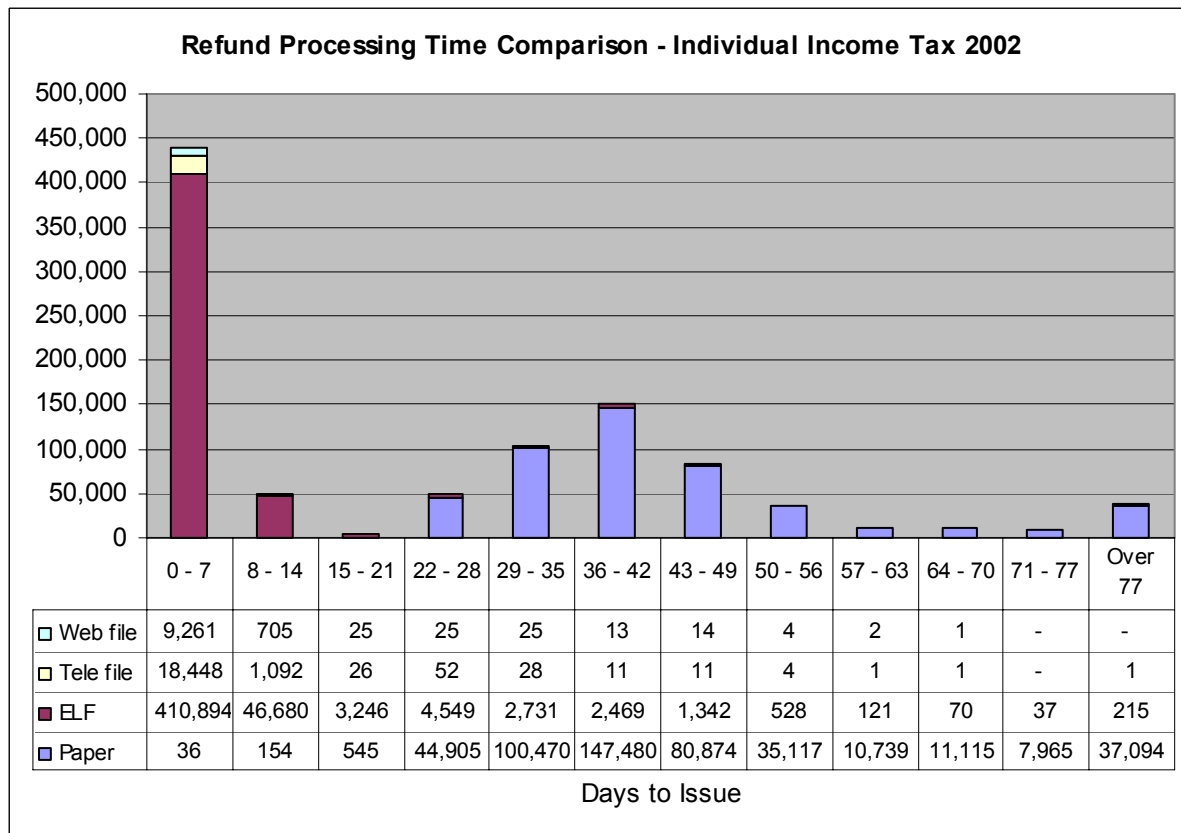
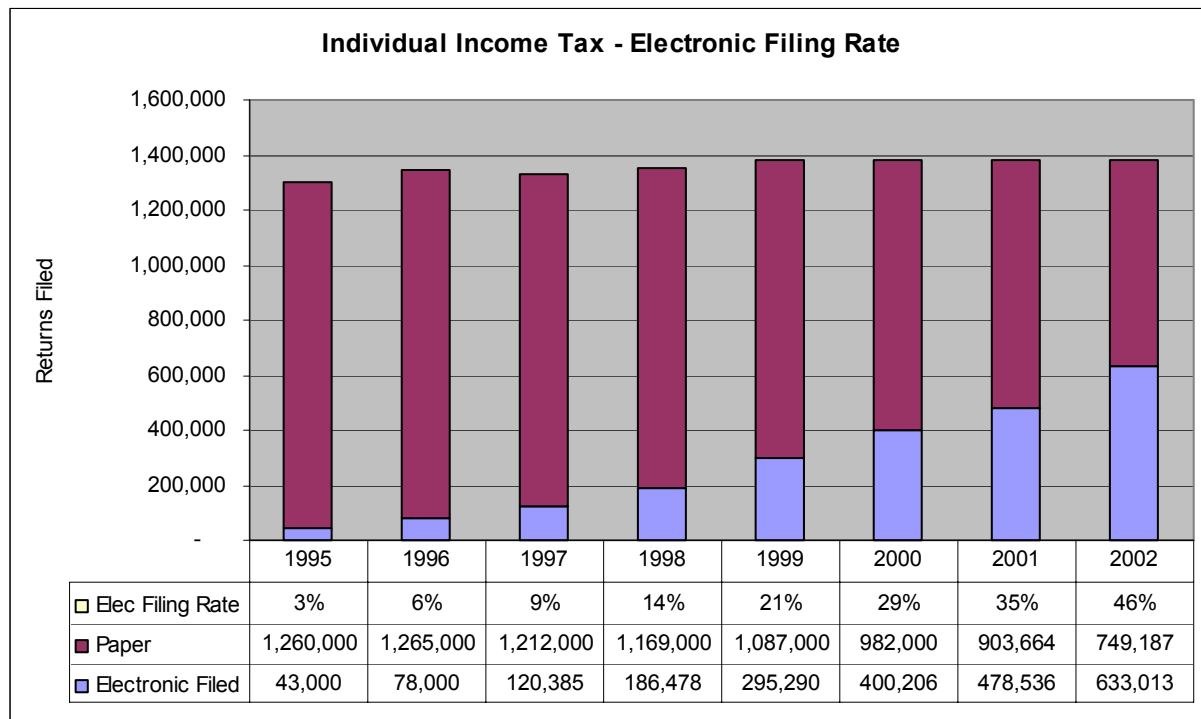
- Percent of income tax transactions sent to the reconciliation file that are resolved within 30 days.
- Income tax returns filed – Electronic vs. Paper
- Percent of income tax refunds issued within 60 days of time received.
- Deposit times.
- Percent of dollars deposited via Electronic Funds Transfer.
- Review rate for documents sent to resolution.

### FY 2002 Results

- ✓ Processed and deposited \$5.77 billion in gross tax collections.
- ✓ 88% of income tax refunds issued within 60 days.
- ✓ Processed 3.2 million tax documents
- ✓ Issued 27,000 tax permits for businesses

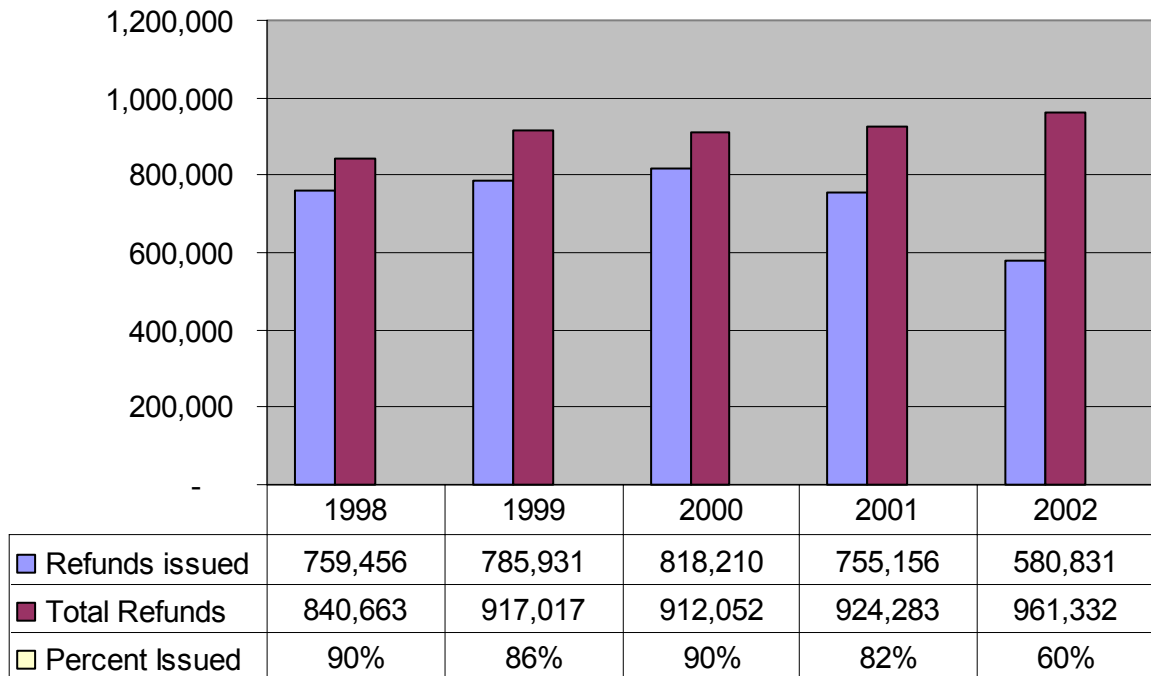
### FY 2004 Initiatives

- ❑ Continue the development of e-filing options for business taxes.
- ❑ Continue process refinement efforts to maintain service levels and control costs.

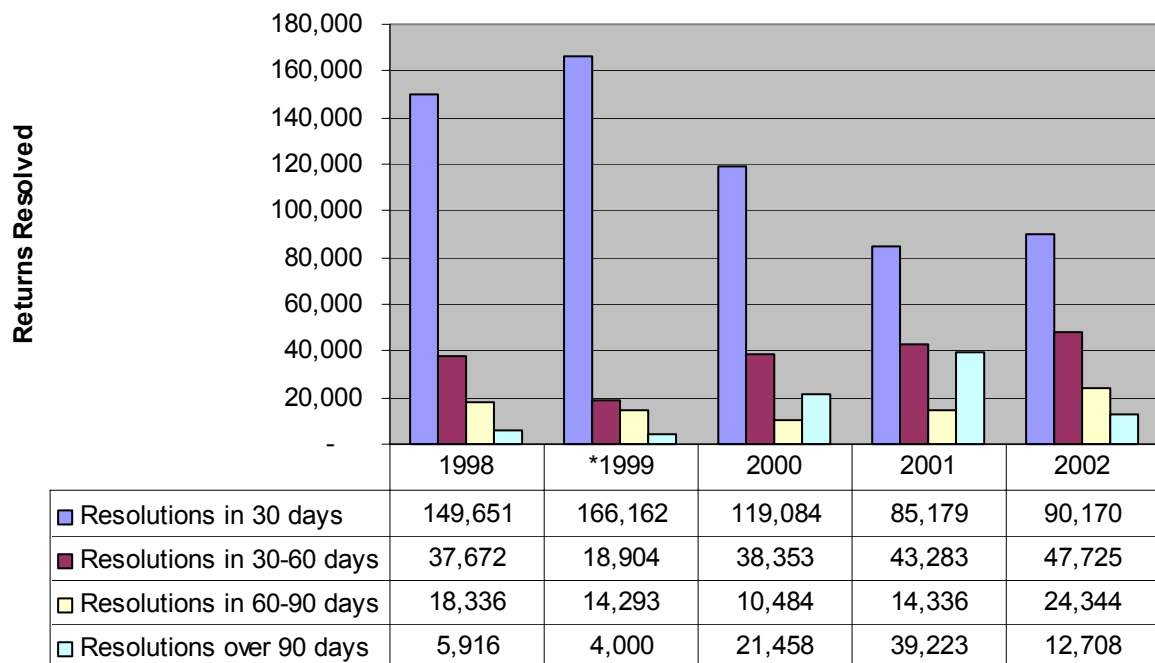




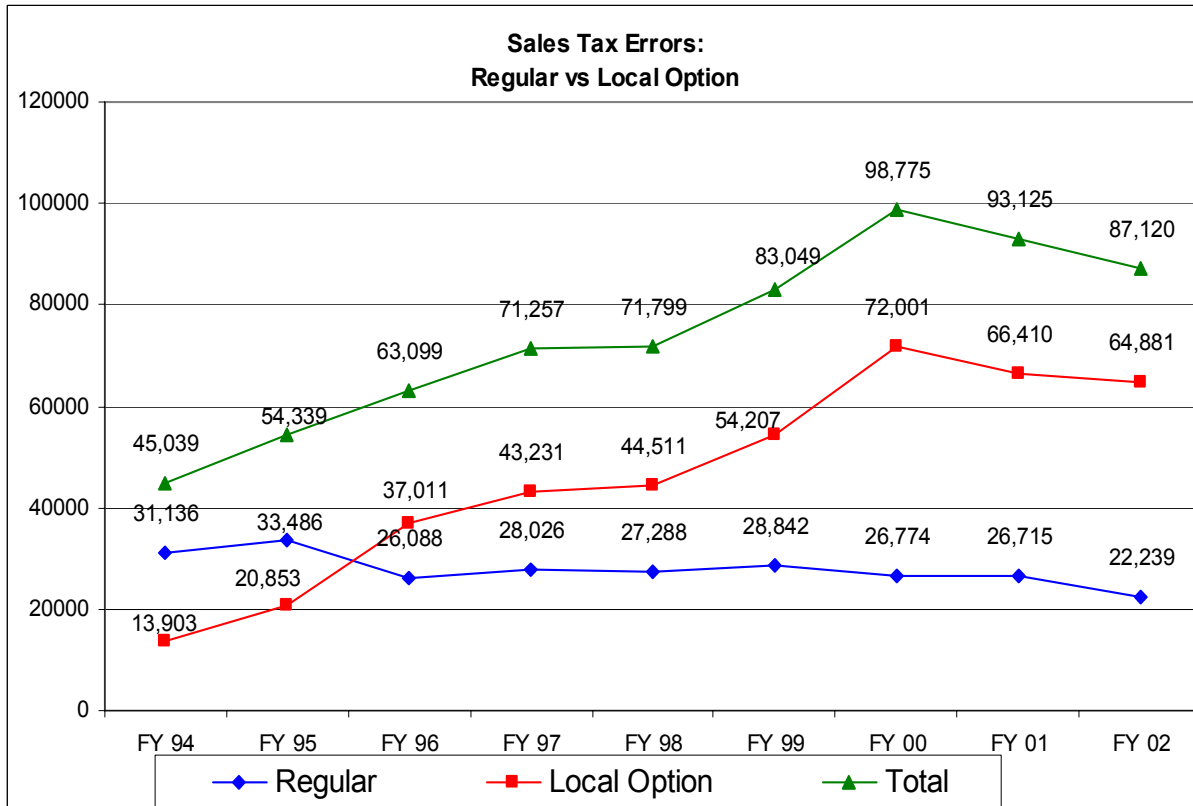
### Individual Income Tax Refunds Issued within 30 Days



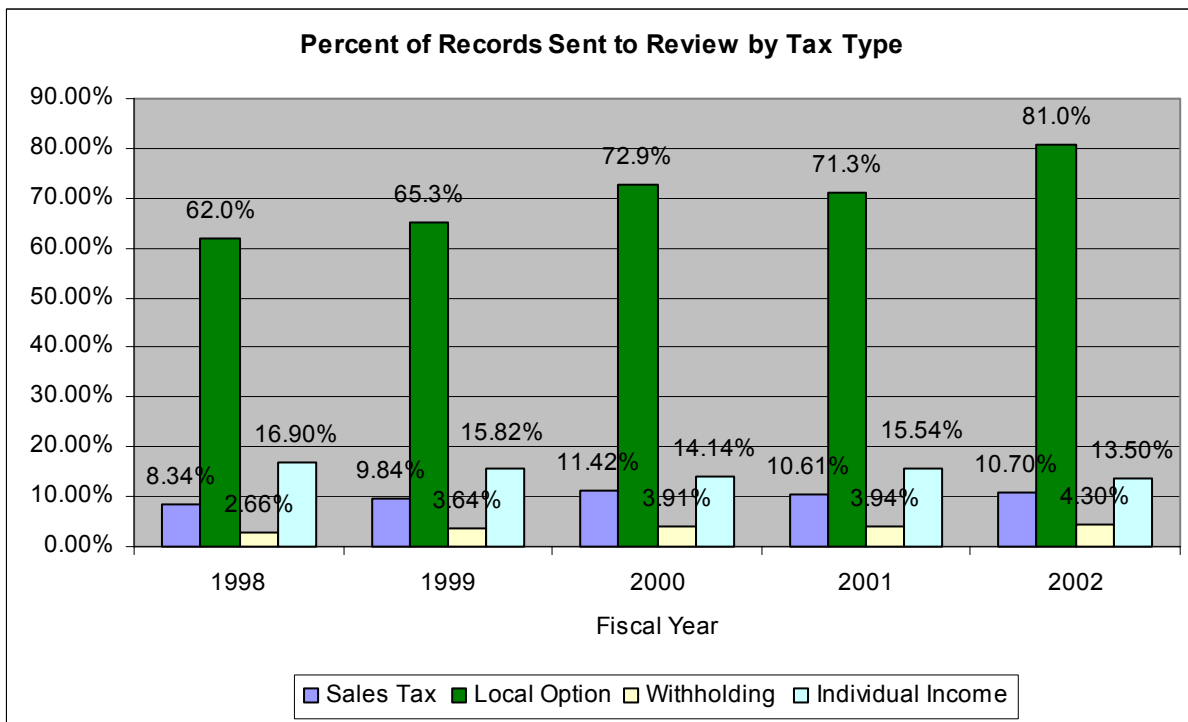
### Individual Income Tax Resolutions - 30 day increment

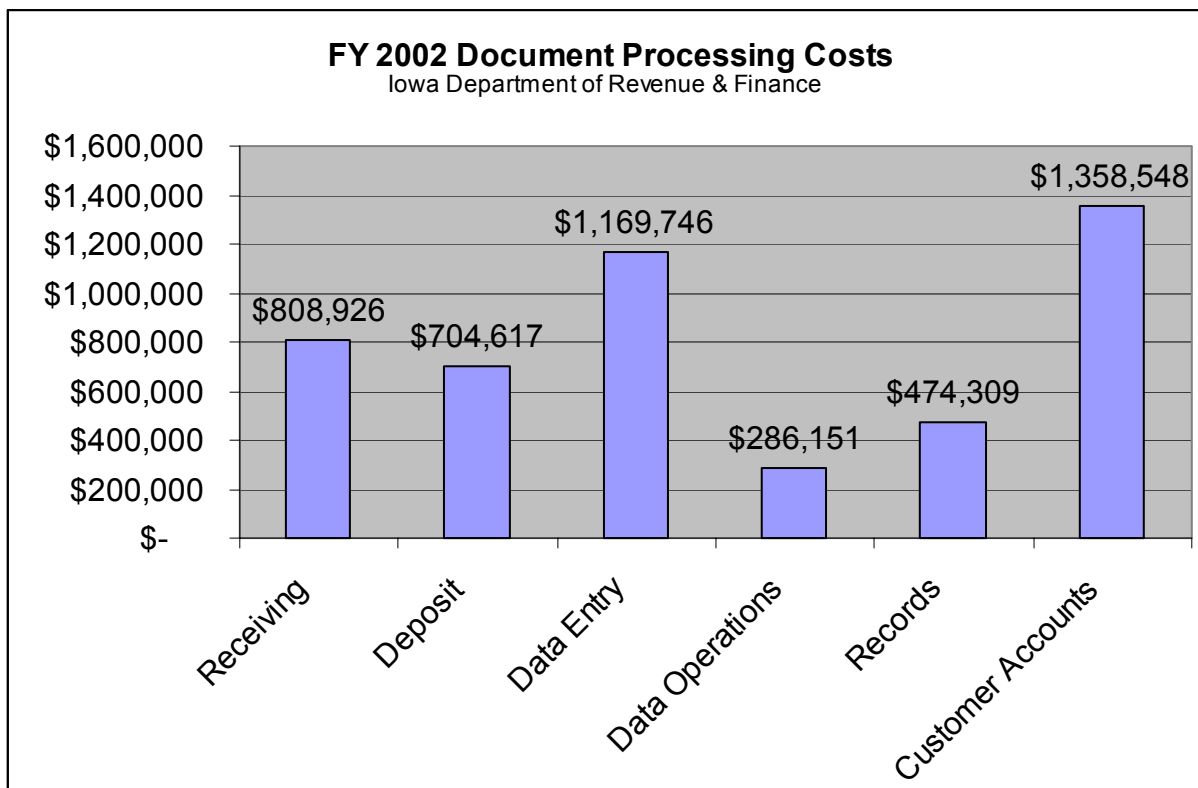
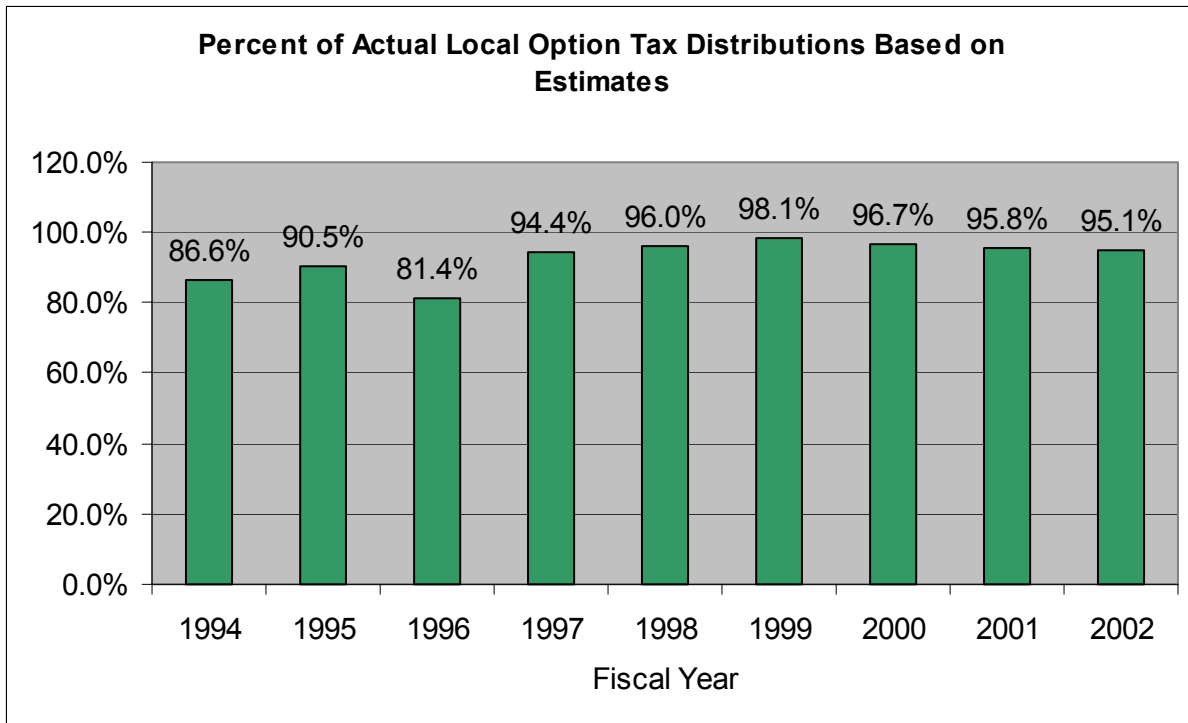


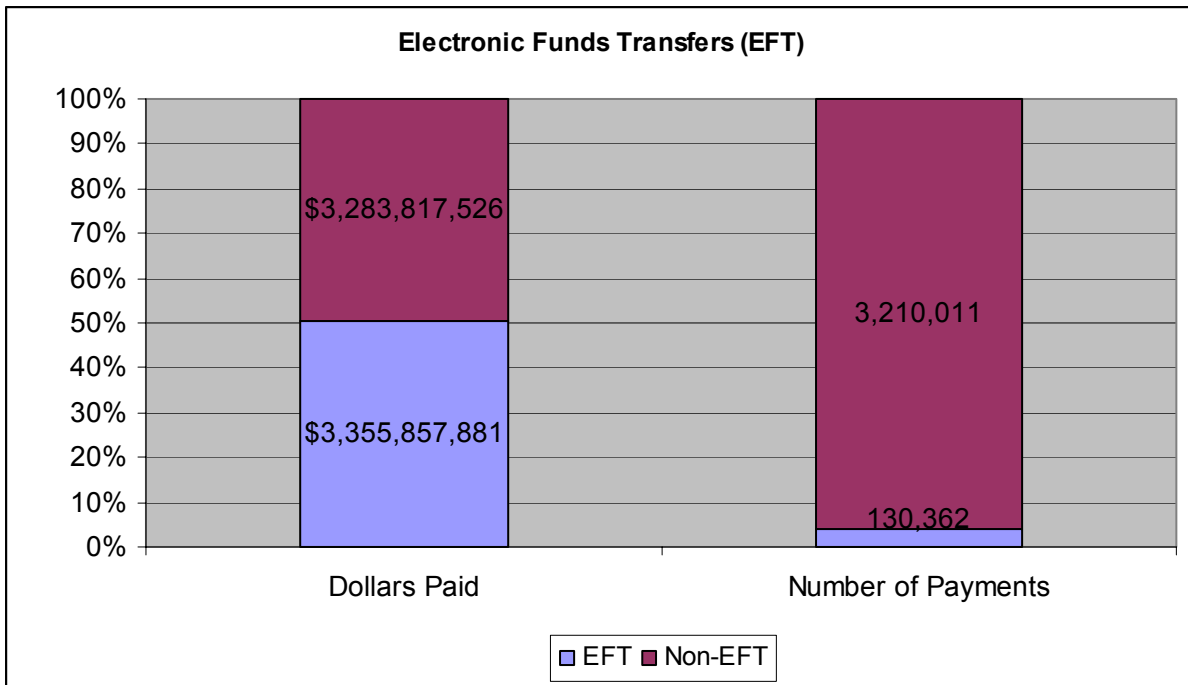
## Sales Tax Error Volumes



## Sales Tax Error Rates

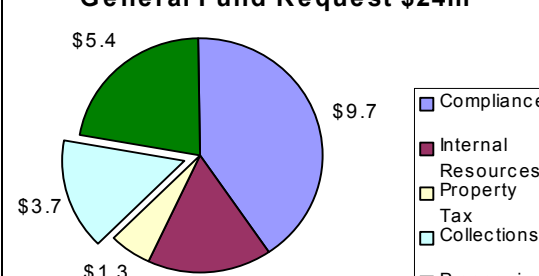






COLLECTIONS	FY04: \$ 3.7m 71.76 FTE's
<b>Program Description</b>	
To resolve the outstanding debt owed to the Department of Revenue and Finance and other contracting agencies; and to resolve the unbilled, non-filed returns for the Department in compliance with Iowa law.	

**FY 04 Funding Request - General Fund Request \$24m**



Category	Amount (\$m)
Compliance	9.7
Internal Resources	3.9
Property Tax	1.3
Collections	3.7
Processing	5.4

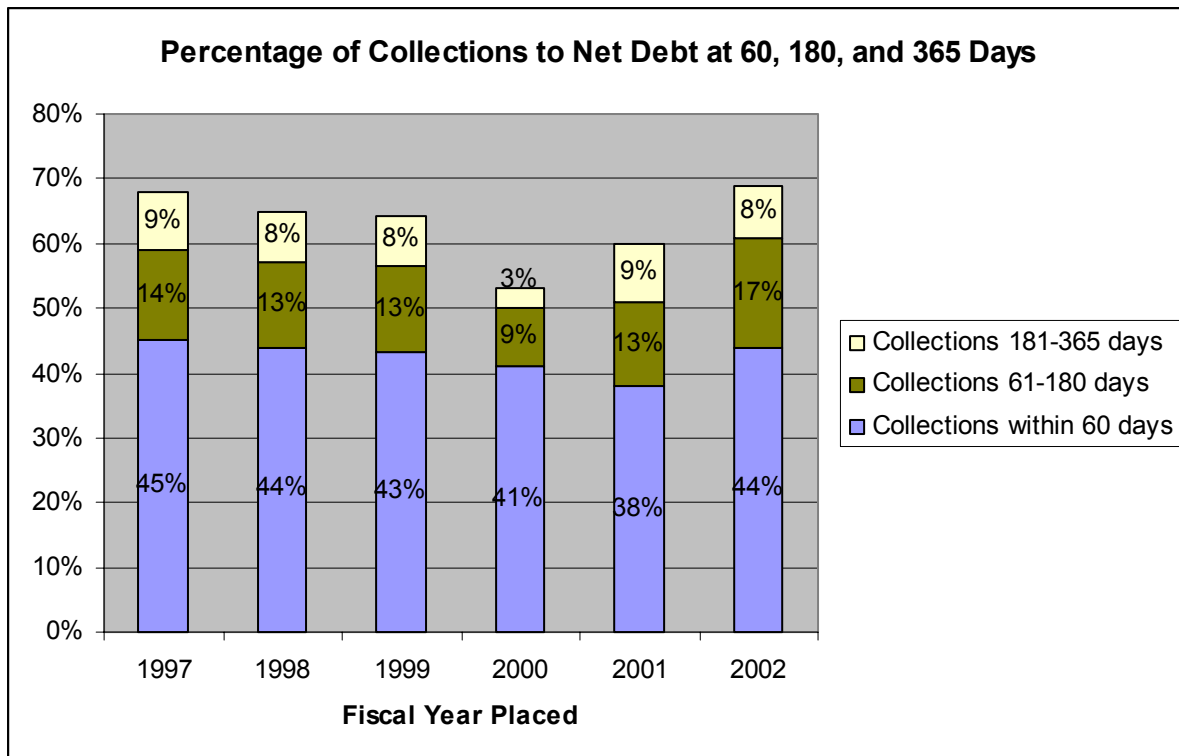
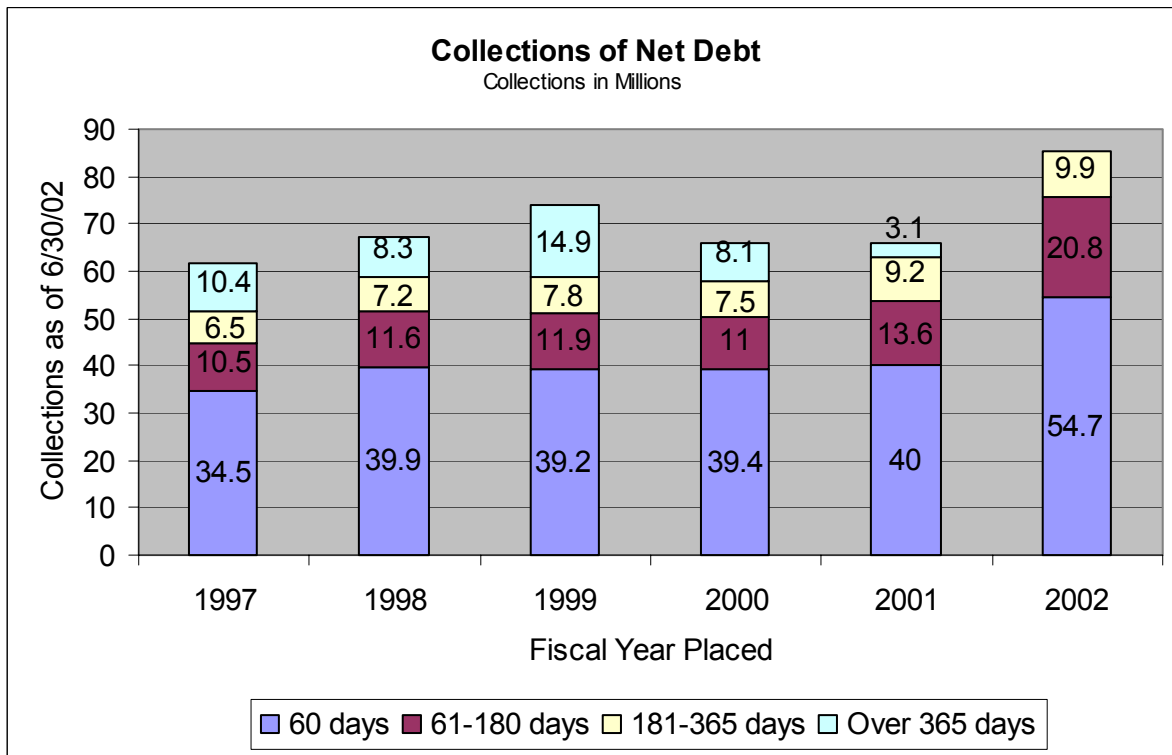
<b>Program Goals</b>
<ul style="list-style-type: none"> <li>♦ Collect the "net debt" placed with the collection facility within the following time parameters:             <ul style="list-style-type: none"> <li>a) 36% of net debt in 60 days</li> <li>b) 45% of net debt in 180 days</li> <li>c) 71% of net debt in 365 days</li> </ul> </li> </ul>

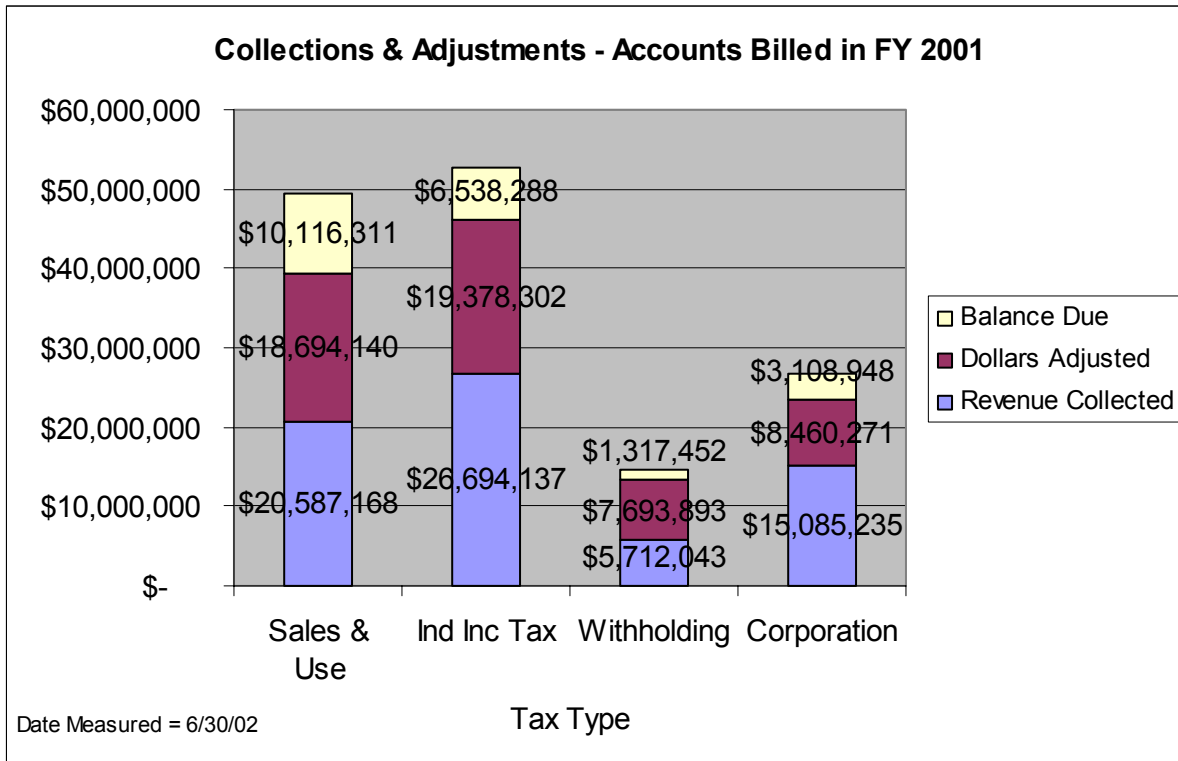
<b>Key Measures</b>
<ul style="list-style-type: none"> <li>♦ Percentage of collections to net debt at 60, 180, and 365 days.</li> <li>♦ Net Recovery rate – Aged one, two, and three years.</li> <li>♦ Collection Partnership – Costs as a percentage of total collections.</li> </ul>

<b>FY 2002 Results</b>
<ul style="list-style-type: none"> <li>♦ Collected the "net debt" placed with the collection facility with the following time parameters:             <ul style="list-style-type: none"> <li>a) 44% of net debt in 60 days</li> <li>b) 61% of net debt in 180 days</li> <li>c) 69% of net debt in 365 days</li> </ul> </li> <li>♦ Net Recovery rate<sup>1</sup>:             <ul style="list-style-type: none"> <li>a) 79% for accounts aged one year</li> <li>b) 88% for accounts aged two years</li> </ul> </li> <li>♦ Collection Partnership – 8.61% total cost to collect.</li> </ul>

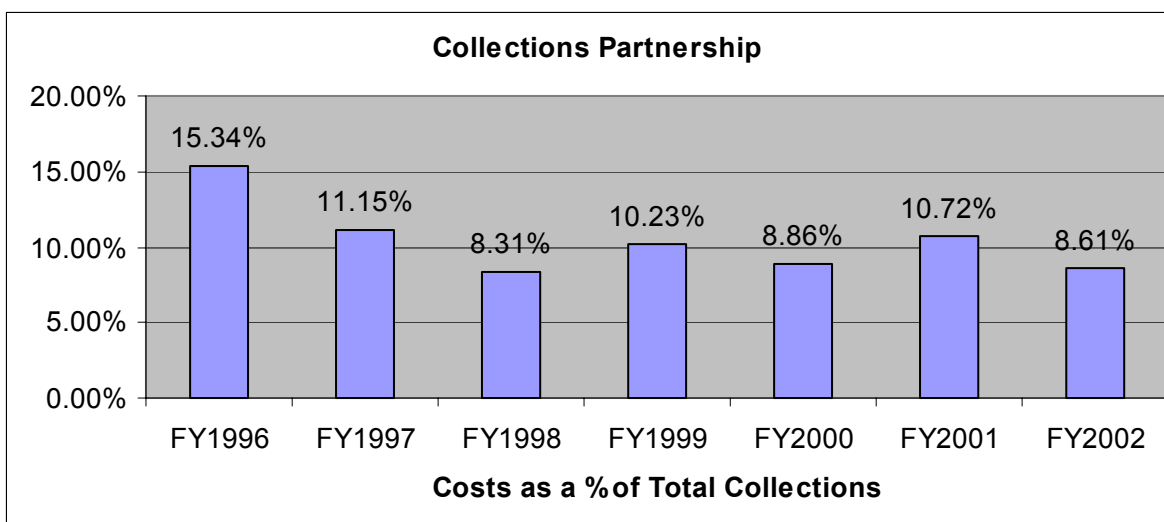
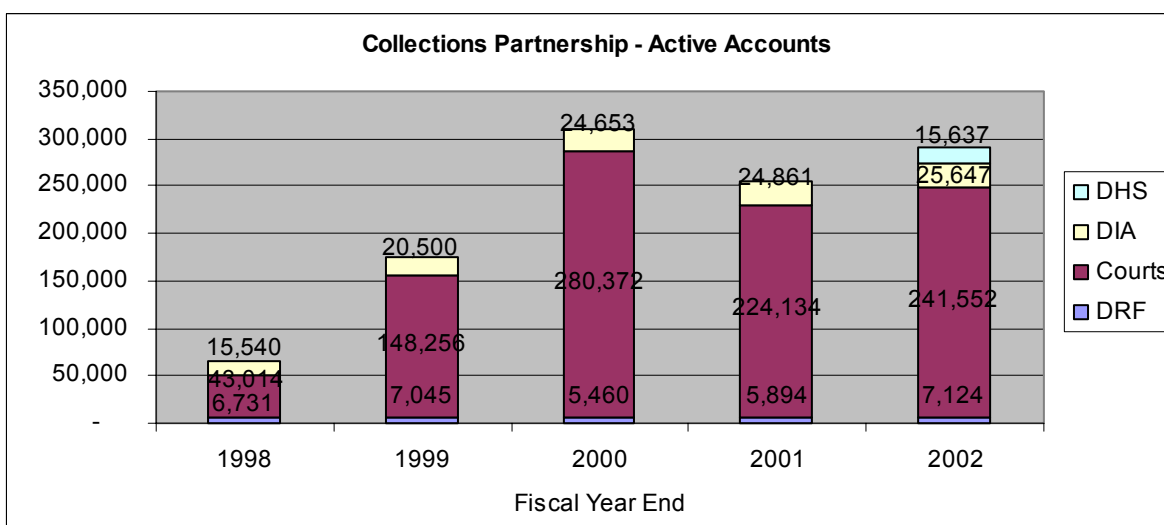
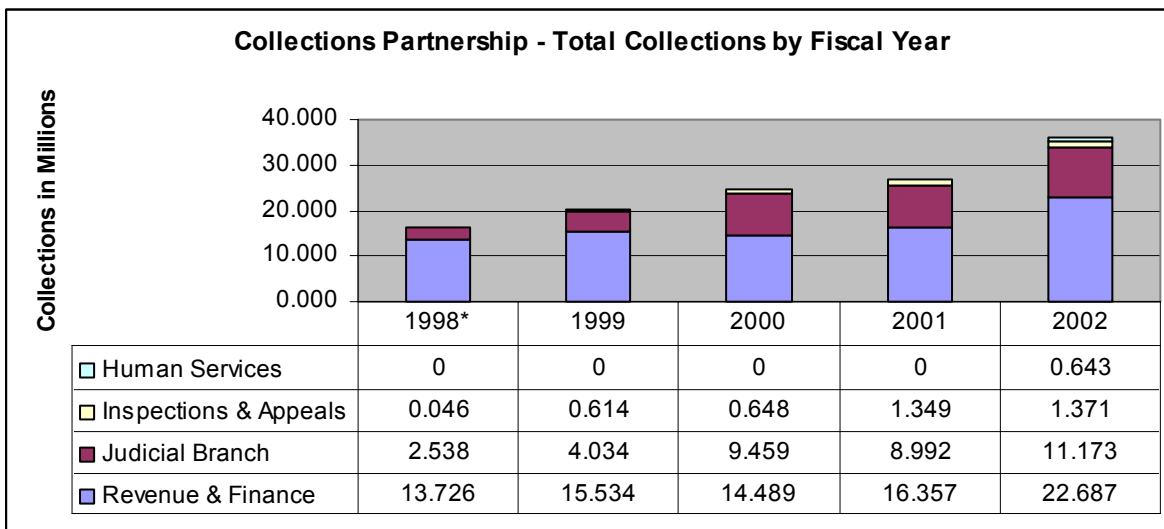
<b>FY 2004 Initiatives</b>
<ul style="list-style-type: none"> <li>♦ Provide collection services to other state agencies.</li> <li>♦ Continuously refine processes to achieve collection results and customer satisfaction at the first contact.</li> </ul>

<sup>1</sup> Based on FY 1998, FY 1999 and FY 2000.





## Collections Partnership

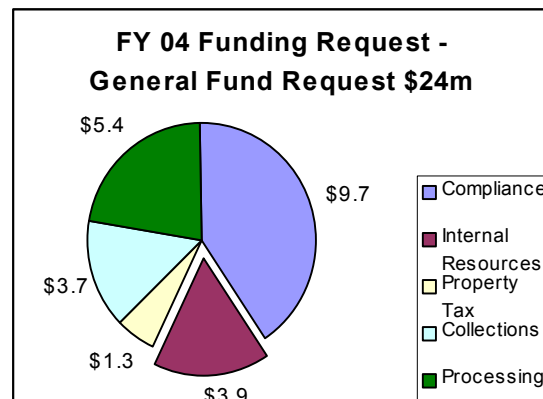




INTERNAL RESOURCE MGT.	FY04: \$ 3.9 49.67
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### Program Description

To provide information technology, employee development administration, information analysis and budget and reporting services to enable employees to meet their program goals and to provide services to our customers.



### Program Goals

- ◆ To attract and retain skilled workers.
- ◆ Performance measurement tools utilized by all levels of the organization.
- ◆ 100% "E" with emphasis on development of web based interactive applications for filing of returns, payment of taxes and accessing of account information.
- ◆ Employee recognition programs are established and utilized.
- ◆ Information resources are available to customers 99% of time.
- ◆ Provide information and analysis on the condition of tax revenues and refunds.

### Key Measures

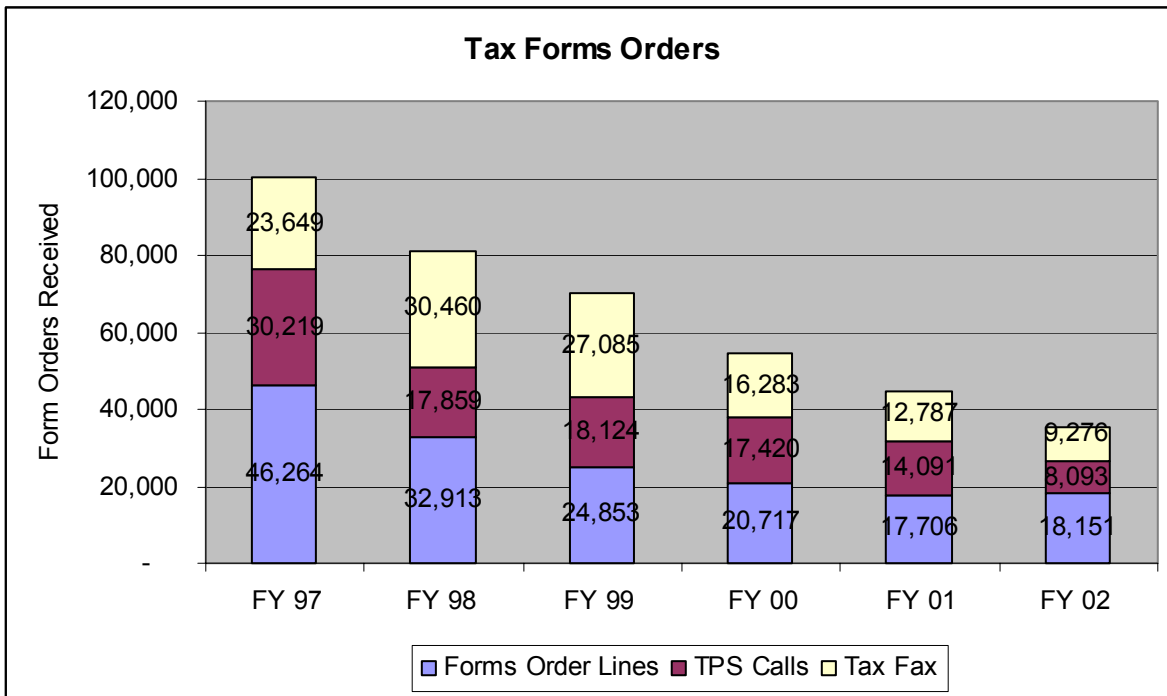
- ◆ Utilization of income tax electronic filing with a goal of 80% E-Filed returns by 2007
- ◆ Percent of programs with family of measures evaluated
- ◆ Forms order fulfillment produces 24 hour turnaround.
- ◆ Numbers of employees recognized for service/performance accomplishments.
- ◆ Customer satisfaction ratings for all E-Services applications
- ◆ Revenue and refund analysis and tracking reports are provided to users monthly.
- ◆ Quarterly background papers on tax revenues, refunds and condition of the State's economy are developed and presented to REC members and staff.

### FY 2002 Results

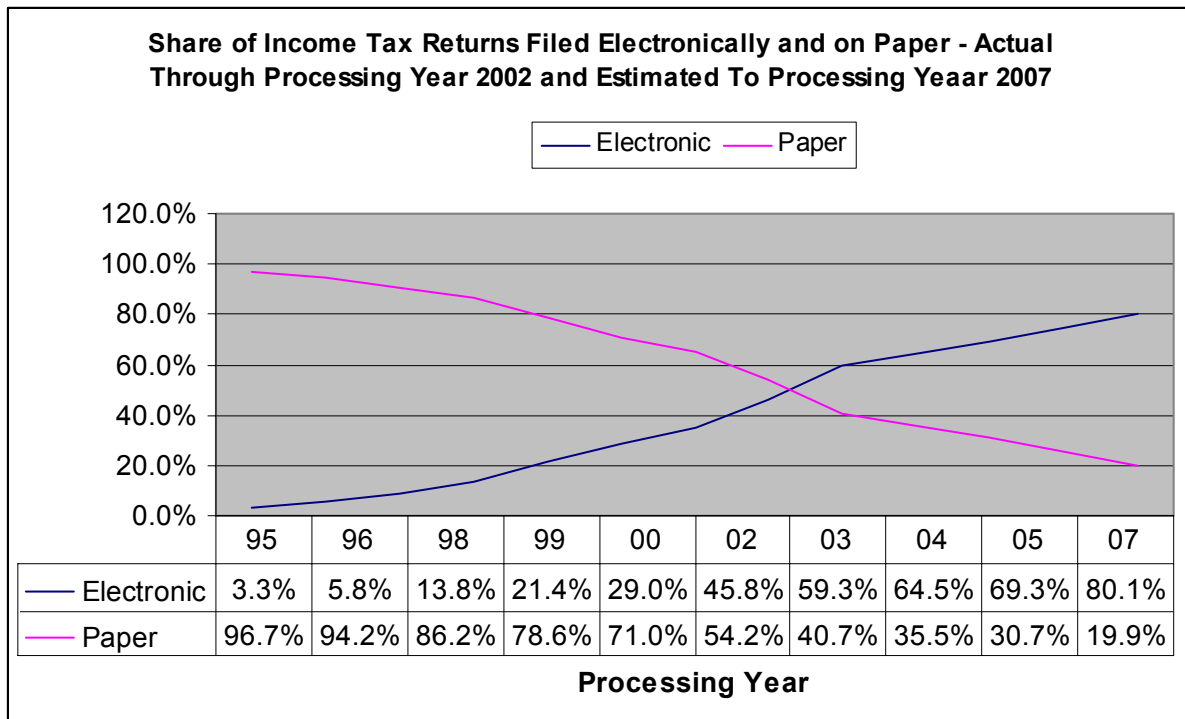
- ✓ Enhanced information systems to provide improvements in local option tax processing and distribution, increased support for collection of debt for DHS and increased efficiency of compliance programs under Tax Gap initiative.
- ✓ Enhanced E-services program with five additional web based applications.
- ✓ 30% increase in use of income tax electronic filing resulting in Iowa ranking 1<sup>st</sup> nationally in share of income tax returns filed electronically (46%).
- ✓ 15% decrease in forms orders calls with part of the decrease attributed to deployment of a web-based forms ordering system.

### FY 04 Initiatives

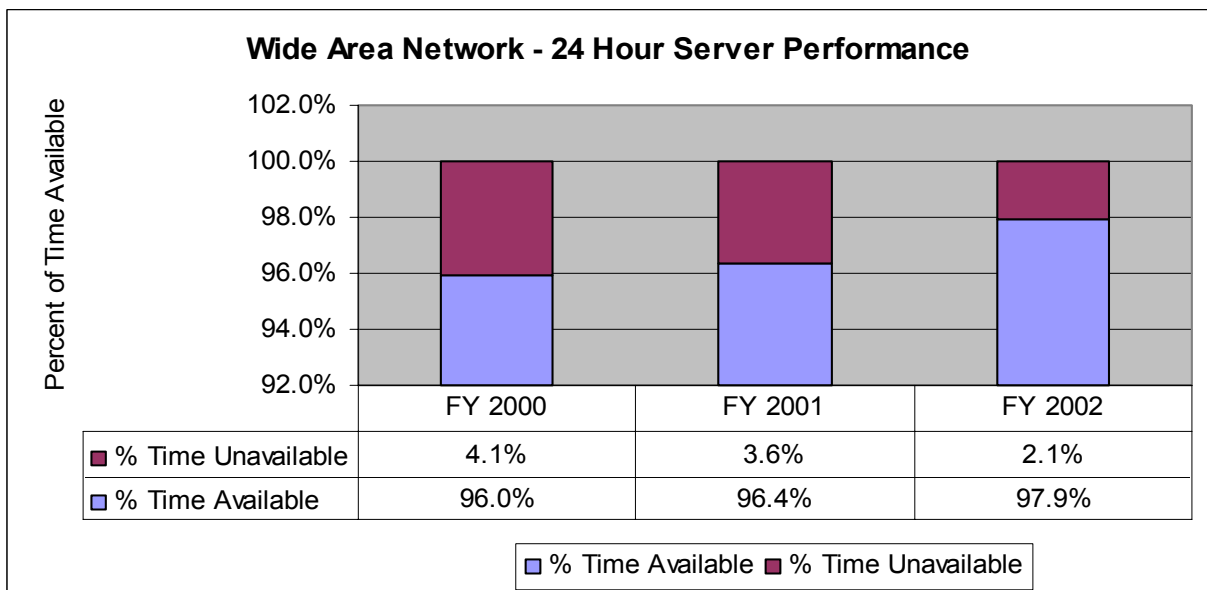
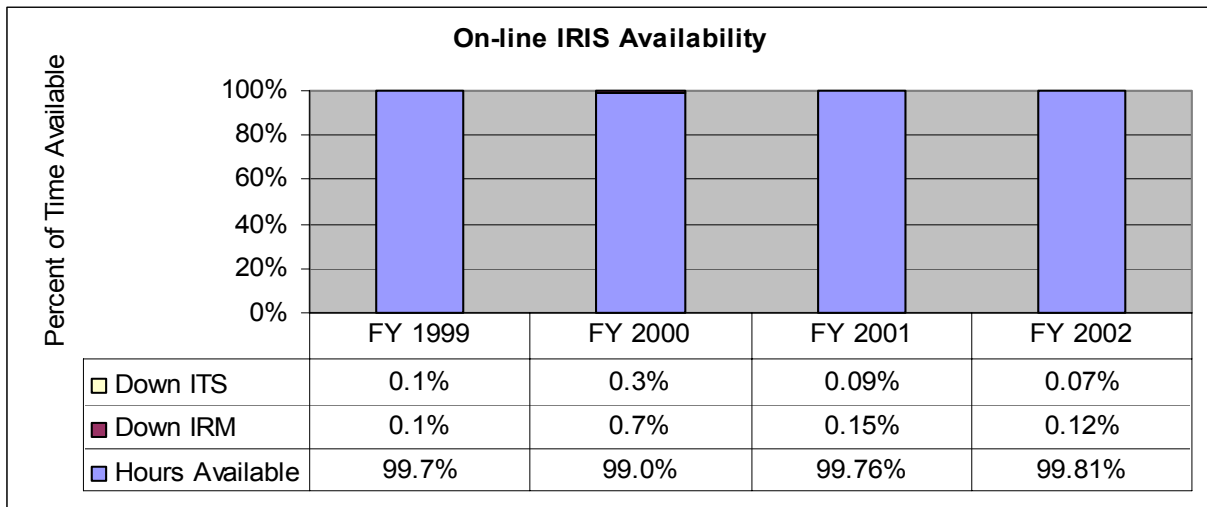
- Continue to enhance electronic filing opportunities resulting in the electronic receipt of at least 850,000 income tax returns.
- Expansion of E-file program to include selected business taxes.
- Improving the estimation of State revenues and refunds.
- Integration of department technology resources with other state agencies to provide improvements in service delivery and increased efficiency for the enterprise.
- Align department operations with the Accountable Government Act.
- Continue needs assessment efforts to eliminate knowledge gaps.



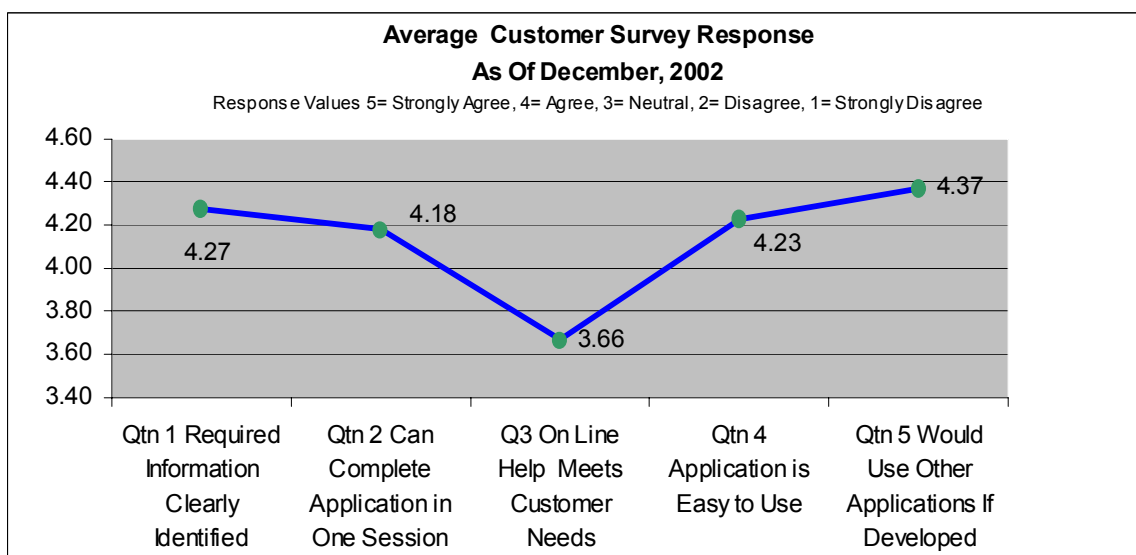
### Individual Income Tax Electronic Filing

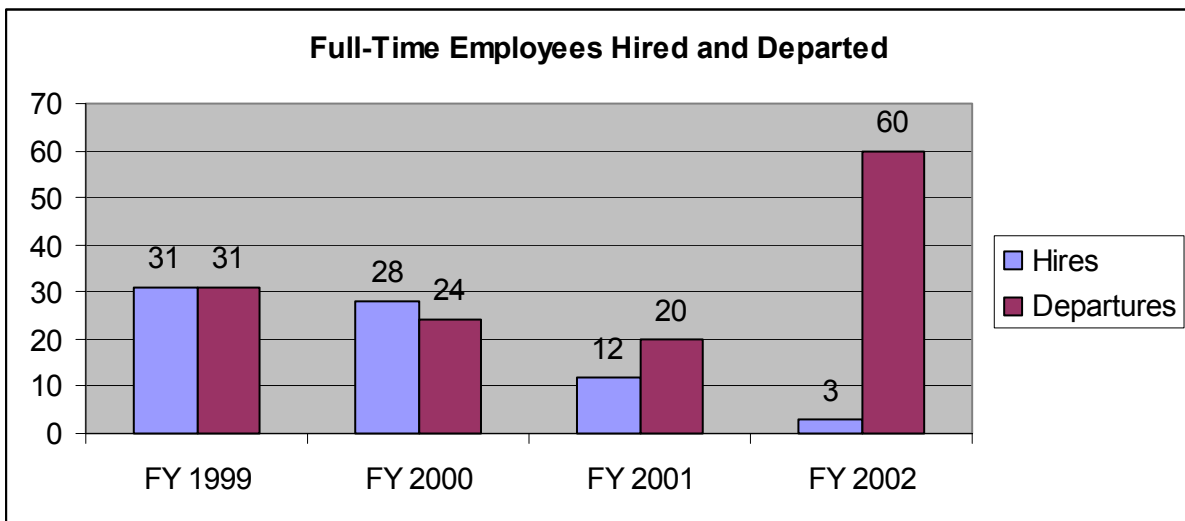
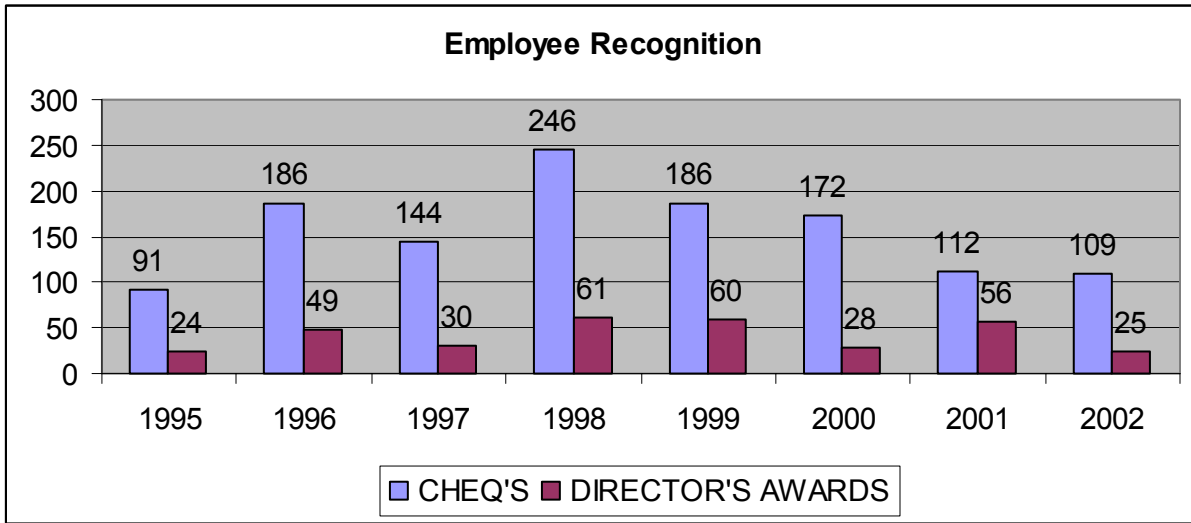


## Information System Availability



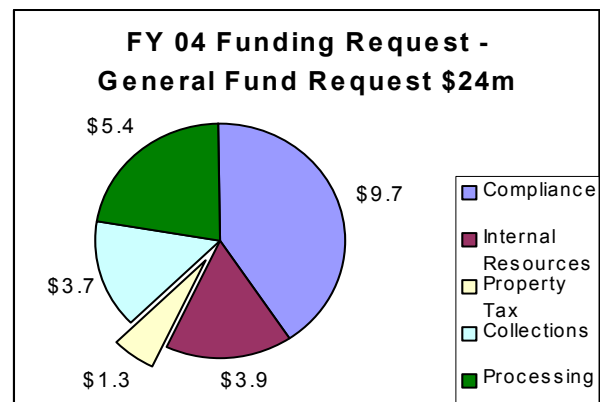
## E-Services Customer Responses





PROPERTY TAX	FY04: \$ 1.3m 15.69 FTE's
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<b>Program Description</b>
To provide comprehensive and timely education, service and enforcement programs to property tax officials and property taxpayers of Iowa, which will result in fair and equitable property assessments



<b>Program Goals</b>
<ul style="list-style-type: none"> <li>◆ Equalizations – Improve processes and systems to provide information and assistance to assessors in a time frame that such data and aide can be utilized to establish accurate levels of assessment.</li> <li>◆ Central Assessments – Improve the central assessment process to timely provide accurate assessments to our taxpayer customers, which in turn, will meet the needs of our other customers involved in establishing property tax levies.</li> <li>◆ Utility Replacement Tax – Implement Iowa's utility replacement tax timely and accurately.</li> <li>◆ Training and Education – Implement local tax official education and training programs.</li> </ul>

<b>Key Measures</b>
<ul style="list-style-type: none"> <li>▪ Time frame for processing and providing sales data to local assessors.</li> <li>▪ Time frame for providing certified central assessment values.</li> <li>▪ Number of successful protests of equalization orders.</li> <li>▪ Number of schools, workshops and conferences participated in annually and number of new assessors completing IDRF training curriculum.</li> </ul>

<b>FY 2002 Results</b>
<ul style="list-style-type: none"> <li>✓ Ongoing implementation of Utility Replacement Tax providing equity in assessed values and estimated property tax levies for all counties.</li> <li>✓ Processed 95,000 declaration of value documents used to provide sales data to local assessors.</li> <li>✓ Implemented Sec. 42 reporting assessment guidelines</li> <li>✓ Continued to enhance equalization appraisals utilizing improved market based data and methodologies.</li> </ul>

<b>FY 04 Initiatives</b>
<ul style="list-style-type: none"> <li>□ Continue to monitor and improve utility replacement tax processes.</li> <li>□ Timely issuance of Equalization orders that will impact 2003 property values.</li> <li>□ Implement industrial review program study.</li> <li>□ Improved transactions with local tax officials utilizing electronic communication technologies</li> </ul>

**Property Tax (PT05)****Performance Measures****CENTRAL ASSESSMENTS - CERTIFICATES OF ASSESSMENT**

*It is important to local governments to receive the certified central assessment values in a timely manner. These values are utilized in the budgeting and levy process by local governments. The sooner they receive these values, the sooner they can begin the budget process.*

**Dates Mailed**

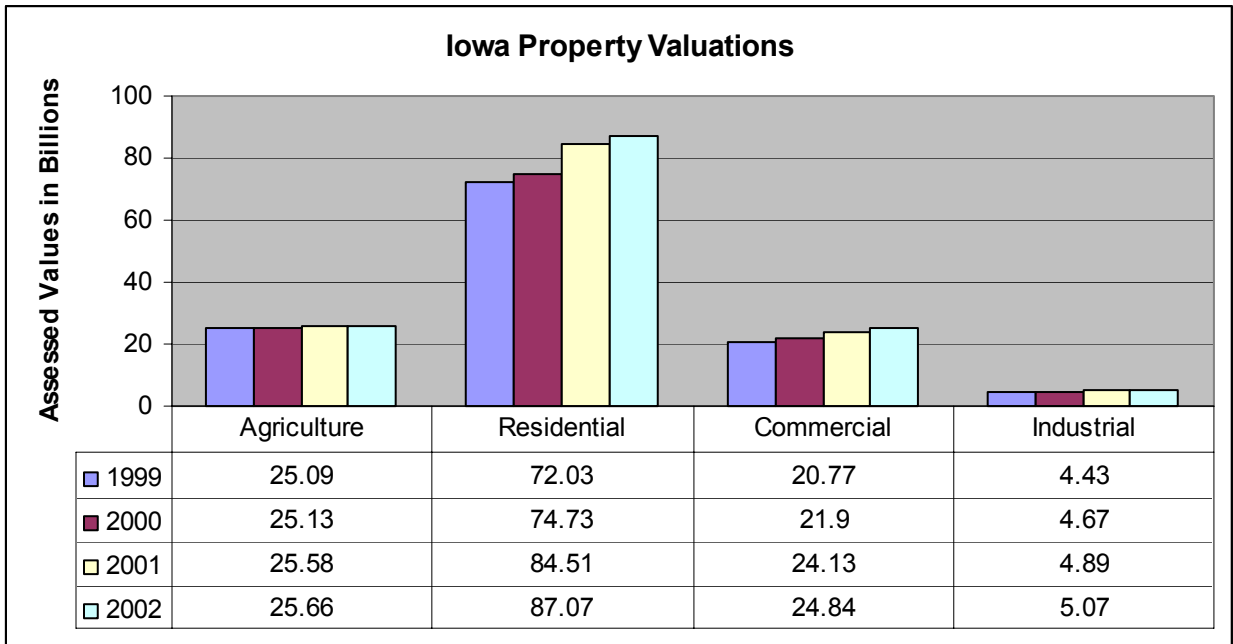
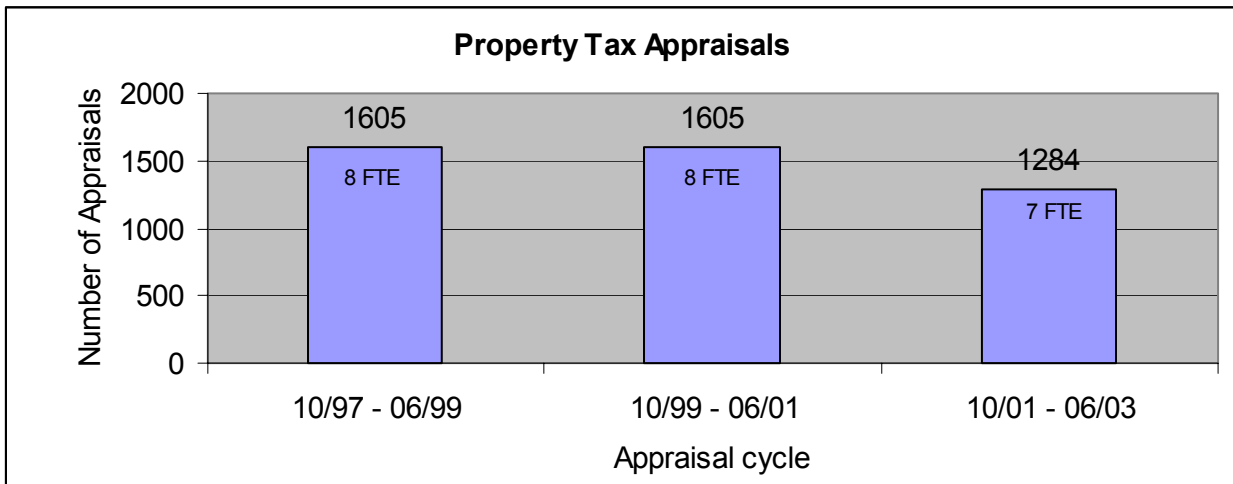
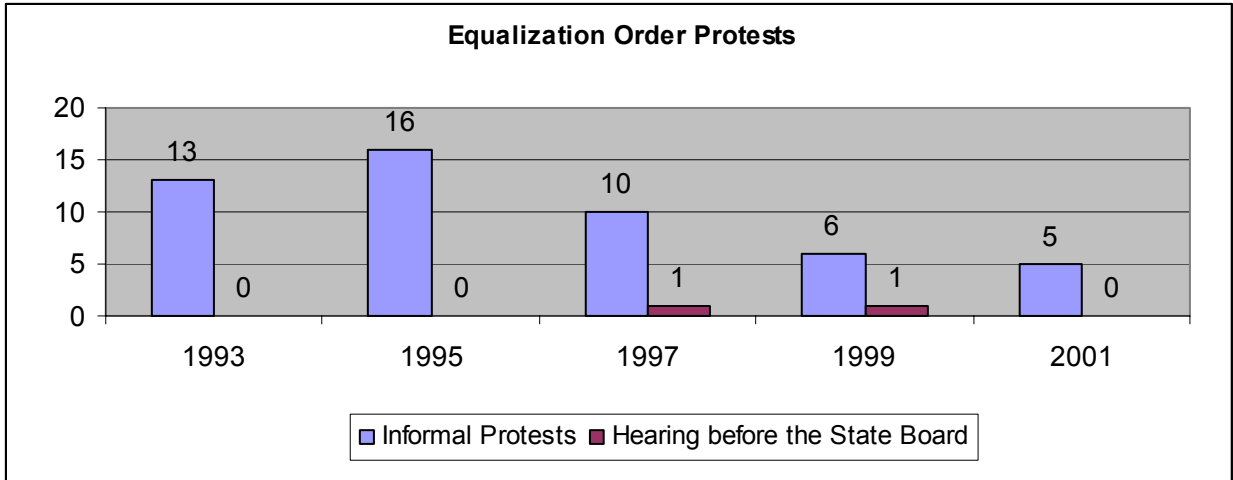
December 7, 1992  
 December 22, 1993  
 December 6, 1994  
 November 9, 1995  
 November 15, 1996  
 November 26, 1997  
 December 14, 1998  
 December 17, 1999  
 December 8, 2000  
 November 21, 2001  
 November 26, 2002

**EQUALIZATION - SALES LISTINGS HISTORY**

<u>Sales Year</u>	<u>Date Partial Sales Listing Sent*</u>	<u>Date Final Sales Listing Sent</u>
1992	January 28, 1993	June 1, 1993
1993	February 21, 1994	June 23, 1994
1994	January 23, 1995	June 1, 1995
1995	January 24, 1996	June 6, 1996
1996	December 23, 1996	May 29, 1997
1997	December 23, 1997	May 21, 1998
1998	December 11, 1998	May 14, 1999
1999	December 30, 1999	May 30, 2000
2000	January 8, 2001	May 9, 2001
2001	January 11, 2002	May 10, 2002
2002	January 8, 2003	

\* January - October Sales

Cutoff = June 1







## **Summary of FY 2004 Department of Revenue and Finance Electronic Tax Administration Initiatives**

The department is requesting \$520,000 from the Pooled Technology Account to implement initiatives related to electronic tax administration. Following is an overview of the Electronic Tax Administration proposal.

### **Overview**

During the current fiscal year the department will continue its efforts to provide Iowans with opportunities to electronically file information, remit payments of taxes and to retrieve information from the agency. In this proposal the department requests funding for FY 2004 to further expand these opportunities in four important areas. Three of these directly relate to providing services via the Internet. The fourth recognizes that however valuable the creation of Internet service delivery may be, the enhancement of major tax processing systems is critical to department's successful support of electronic tax administration.

### **What Is Being Proposed?**

#### **A. Maintaining and Expanding Electronic Filing Alternatives for Individual Income Taxpayers**

Utilization of the department's web based income tax filing application continues to increase in the third year of the WebFile program. The department is requesting funding to allow for expansion of the current application to permit additional individuals to file directly with the agency without paid tax assistance.

#### **B. Support of Electronic Filing of Sales and Other Business Taxes-**

The department requests funding to support the electronic filing of retail sales and use tax returns with the agency. Iowa currently has approximately 100,000 businesses that remit taxes and file returns throughout the year. The agency anticipates developing a web based application for electronic filing similar to that which exists in a number of states. The design of the application will consider the possibility of the future adoption of the national sales tax streamlining initiative.

#### **C. Provide Online Access to Customer Information Maintained in Department Information Systems**

The department plans to deploy several applications which will permit external customers to securely access information from various agency information systems. The projects anticipated include the accessing of accounts receivable balances and retrieving information on history of tax payments. Additional plans call for inclusion of property tax information required for uniform assessment.

#### **D. Completion of Integration of Withholding Tax into Integrated Revenue Information System**

In the past several years, the department has made the effort to improve the effectiveness of tax administration by providing for an integrated information system known as IRIS. By including withholding tax into IRIS the department will have completed the migration of all major tax sources from legacy applications into this new environment. This will permit the inclusion of withholding tax in future electronic programs.

# **Revenue Estimating Conference Process Enhancements Proposal**

## **Introduction**

The members of the Revenue Estimating Conference (REC) and the Governor are recommending a number of actions with the intent of improving the estimation of State revenues and refunds. A portion of the proposal relates to expanding data capture and analysis capabilities within the Department of Revenue and Finance. The major features of the Department's portion of the proposal are outlined below. The Department's part of the proposal would be implemented over three fiscal years.

### **Phase One – Fiscal Year 2004**

**FTEs 12.32 Cost \$741,900**

The first phase will focus on adapting existing electronic databases maintained by the Department and other departments of state government for use in the development of revenue and refund forecasting models. In addition, this phase will involve enhancing the quality of information on capital gains and losses reported by Iowa taxpayers to the federal government. Major actions include:

- The capture and analysis of data from electronically filed (ELF) individual income tax returns.
- Collaborate with Department of Workforce Development to fully incorporate the North American Industrial Classification System (NAICS).
- Develop an enhanced refund tracking and forecasting system.
- Develop enhanced economic databases and models.
- Accelerate the processing for corporate income tax refund claims.
- Accelerate the processing of quarterly sales tax returns.
- Capture and analyze additional data on capital gains (schedule D).

The additional staff includes 9 permanent positions and 3.32 position equivalents for temporary employees. At least \$750,000 in savings to the State's General Fund should be realized from actions taken under this phase.

### **Phase Two – Fiscal Year 2005**

**FTEs 18.45 Cost \$1,045,250**

Actions proposed for this phase will focus on the capture of additional individual, corporate, inheritance and estate, and insurance premium tax information. In addition, many of the Phase One actions will continue. Although the cost of continuing many Phase One actions will be less than for the first year due to some of those costs arising from one-time or start-up activities. Major new actions include:

- ♦ Develop an automated database for inheritance and estate tax data.
- ♦ Develop a business tax credits tracking system.
- ♦ Capture and analyze additional business income (schedule C) data.
- ♦ Capture and analyze additional corporate tax credit data.
- ♦ Develop an automated database for insurance premium tax returns.
- ♦ Capture and analyze additional farm income (schedule F) data.
- ♦ Capture and analyze additional supplemental income (Schedule E) data.

During this phase 5 additional permanent positions will be added. The interest cost savings realized from Phase One actions will continue during this phase. Additional benefits beyond improving the REC process will come from an enhanced system for tracking business tax credits and from providing additional compliance program leads.

### **Phase Three – Fiscal Year 2006**

**FTEs 18.75 Cost \$1,106,100**

This phase will focus on enhancing and redesigning various tax systems to capture additional information, to reduce errors, and to make access to the data more timely. The major new features of this phase include:

- ♦ Redesign and expand the consolidated schedule for sales tax permit holders that have more than one location in Iowa.

- ♦ Capture and analyze additional information on tax credits claimed by individuals that are now reported on two “other tax credits” lines of the Iowa Schedule 1040.
- ♦ Revive the annual corporate income tax statistical report.
- ♦ Capture and analyze additional information on sales and use tax exemptions.

In addition to the new activities, most of the actions implemented during Phase One and Phase Two will continue. For this phase 4 additional full-time positions would be added. Interest expense savings realized during the earlier phases will continue. In addition to providing better and more timely information to support the revenue estimating process, these actions should generate additional leads for compliance actions.

## Summary

Improving the State’s revenue estimating process depends on having more and better quality information on the taxes collected by the State and more timely access to that information. In addition, for that information to be of value to the members of the Revenue Estimating Conference (REC) resources must be available to support the analysis of tax return and payment information. The proposal outlined above will largely pay for itself from savings on interest payments to taxpayers due to the acceleration of tax return processing and review. Furthermore, the analyze undertaken to support the REC process will yield side benefits for tax compliance activities which can be expected.